



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

MINUTES OF THE MEETING OF THE BOARD MEMBERS

June 20, 2006

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on June 20, 2006, at 9:05 a.m., Eastern Daylight Time. The meeting was open to the public at the Board's offices at 1250 H Street, N.W., Washington, D.C. In attendance were Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member (by telephone); Terrence A. Duffy of Illinois, member (by telephone); Gary A. Amelio, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; Gregory T. Long, Director of Product Development; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs. Melissa Krause, of Deloitte and Touche, LLP, was also in attendance.

1. Approval of the minutes of the May 16, 2006 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the May 16, 2006 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the open portion of the Board member meeting held on May 16, 2006, be approved.

2. Thrift Savings Plan activity report by the Executive Director.

a. Transfer of Work to SI.

Mr. Amelio reported that the transition of work from the National Finance Center (NFC) to SI International was complete and had been even more successful than anticipated. During the transition, NFC personnel had positive attitudes and were very helpful. Mr. Amelio recognized the contributions of several NFC employees by awarding them a TSP medallion.

Chairman Saul thanked Penny Moran, Jim Petrick, and Mark Hagerty for their excellent work during the transition. He noted that much hard work had been involved and remarked that such effort will provide the participants with a better plan.

b. Legislative Update.

Mr. Trabucco reported that, since the last Board member meeting, Congress had taken no action regarding legislation that would affect the TSP. Mr. Saul asked for an update on the Army's pilot program to allow matching contributions for soldiers in particular military occupations. He was told that the first contributions would occur in July and that the pilot would run through 2008. Agency staff will update the Board regularly on this pilot program. Mr. Sanchez asked how many members of Congress were co-sponsoring the bill to add a REIT fund to the TSP and was told approximately 165.

c. Uniformed Services.

Mr. Amelio reported that he had a very productive meeting with Michael Rhodes, the Marine Corps' Deputy Commandant for Manpower. The Agency may develop a brochure explaining the TSP that the uniformed services can give to the parents of potential recruits. This may both assist the uniformed services with recruiting and increase TSP participation among new service members.

d. Monthly Investment Activity Report.

By memorandum dated June 9, 2006 (attached), Ms. Ray provided the Board members with a report on the performance of the G, F, C, S, and I Funds during May 2006.

Mr. Sanchez inquired regarding participation rates among members of the uniformed services. He was told that active duty participation increased .2%, to 14.3% in the Army; .2% to 47.0% in the Navy; .4% to 32.4% in the Marine Corps; .3% to 30.0% in the Air Force; and .1% to 27.2% in the Coast Guard. The Public Health Service is participating at a 64.9% rate and the National Oceanic & Atmospheric Association is participating at a 74.5% rate.

Mr. Duffy asked whether members of the uniformed services were primarily investing in equity funds. He was told that we don't have that data yet. However, because most of the new money coming into the TSP from members of the uniformed ser-

vices is going into the long-term L Funds, it is likely that members of the uniformed services are investing most heavily in equity funds.

Mr. Amelio reported that the number of outstanding TSP loans continues to decline. He added that he expected that the charge to plan participants for administrative expenses would be 4 basis points for the year. We now have 3.608 million participants.

Mr. Whiting asked how many TSP participants have TSP loans and was told approximately 19 percent of participants have loans and about 700,000 loans are outstanding (some participants have more than one loan). Chairman Saul asked whether the Agency expects the number of loans to remain constant. Mr. Amelio replied that we might see small decreases but it will likely stay about the same because the percentage of TSP participants with loans is now about the same as in other plans. Chairman Saul asked how many TSP loans were outstanding when Mr. Amelio became Executive Director and was told approximately one million.

3. New Business.

a. Meetings with Foreign Officials.

Mr. Amelio reported that representatives from the governments of the Great Britain, Brazil, and Singapore had visited the Agency. Representatives from France will visit the Agency tomorrow. The representatives are seeking information on how the Agency is structured and how it manages the plan. All have been very impressed. They frequently comment that they would prefer that the Agency more actively manage the plan, but are told that you can't have active management and an administrative expense charge of only four basis points.

b. Media Attention on Information Security.

Mr. Amelio reported that the media has devoted considerable attention to information security. He added that he has asked Mr. Hagerty to pay special attention to protecting TSP information. In response, Mr. Hagerty has designated a member of his staff to focus on security full-time and has developed an excellent security plan.

Mr. Hagerty reported that when the Veterans Administration announced that it had lost a laptop computer con-

taining sensitive data, he was attending a conference on identity theft. He also noted that he was the only representative from a government agency at the conference and left the conference confident that security at the TSP was state-of-the-art. Nevertheless, security will always be a fluid environment, and we will need to continually update our program to stay one-step ahead of the bad guys. Agency employees have developed a good relationship with the Secret Service and participate on its Regions Electronic Crimes Task Force. The Agency will also move from using social security numbers to account numbers so that if participant data is ever compromised, the compromise will not include social security numbers.

Chairman Saul commented that the Board is very concerned about security and wants to ensure Mr. Hagerty has all the resources he needs to protect the plan. Mr. Hagerty responded that Mr. Amelio already informed him he can have every resource he needs to support his efforts.

Mr. Fink then asked whether the Agency can identify suspicious TSP transactions in a manner similar to credit card companies. Ms. Moran replied that the Agency monitors transactions and stops transactions from suspicious IP addresses until the transaction is validated. If a participant reports that he or she did not initiate a particular transaction we can track the transaction back to the computer that was used to initiate it. Ms. Moran has dedicated a member of her staff to working on fraud allegations and that staff member also obtains the cooperation of the Secret Service in looking into such allegations. Mr. Sanchez commented that the Florida Bankers Association, 22 states, and various law enforcement agencies use Fraud-Net to alert others when internet fraud occurs. Since a scheme that occurs in one area is often repeated elsewhere, these alerts allow users of this site to protect against a reported scheme. He added that there is no charge to use Fraud-Net and asked whether Mr. Hagerty would be interested in having access to it. Mr. Hagerty replied that he would, and Mr. Sanchez said that he would ensure that access was granted to Mr. Hagerty.

c. Calendar.

The Board voted to set the 2007 Board meetings on the third Monday of every month except, when Monday is a Federal holiday or Sunday is a holiday or Mother's/Father's day, the meeting will take place on the following Tuesday. The calendar is as follows:

Tuesday, January 16th (January 15th is MLK Day)

Tuesday, February 20th (February 19th is Washington's Birthday) (telephonic)

Monday, March 19th

Monday, April 16th

Monday, May 21st

Tuesday, June 19th (June 17th is Father's Day)

Monday, July 16th (telephonic)

Monday, August 20th (telephonic)

Monday, September 17th

Monday, October 15th

Monday, November 19th

Monday, December 17th (telephonic)

d. Controls.

By powerpoint presentation (attached), Mr. Petrick provided the Board members with a report on the Agency's plans for fulfilling FRTIB responsibilities for Internal Control under OMB Circular A-123. He commented that the Agency has long believed it must comply with the OMB Circular but that its Appendix A applied only to CFO organizations.

Mr. Whiting asked how much more it would cost the Agency to comply with Appendix A and was told that the real costs would come from hiring outside auditors to perform independent audits. Chairman Saul asked whether Deloitte and Touche was already performing this audit function. Melissa Kraus from Deloitte and Touche responded that, although they looked at internal controls as part of their audit, they were not doing enough to provide a report on these internal controls. Mr. Whiting asked how much more time it would take to complete such an audit. Ms. Krause responded that the Agency should first do its own internal audit and then ask the auditor to validate the findings.

Mr. Whiting asked if we could impose even stricter requirements on vendors. Mr. Petrick explained that the control plan would include vendors and would identify where the risks are and what controls are needed. The Agency would still rely on the vendor's SAS 70 for its financial audit.

Ms. Krause commented that this robust discussion was very indicative of how the Agency's control plan will develop. At the conclusion of the report the Board members commented that it was very well done and struck a good balance between doing what is necessary but at a reasonable expense.

e. Lost Participants.

Mr. Petrick then specifically addressed control objective B.8, "Lost Participants." The issue with lost participants is determining the risk and how much money we want to spend to address it. Lost participants are most commonly identified when they reach age 70 ½ --at the time of mandatory distribution from the TSP. We notify all participants three times when they must begin accepting distributions from the TSP. If they do not respond to that notice we suspend earnings and move the account to the G Fund. We then notify those who do not contact us by certified mail. They or their heirs can reclaim the account at any time. Mr. Whiting asked about participants who leave Federal service at, for example age 40. He was told that they may leave their money in the TSP and that it will continue to grow in accordance with their investment election. At one time we reallocated these accounts to other participants but that process was discontinued in 2003. Even when we reallocated the account, the account could still be reclaimed by the participant or by the participant's heirs. Mr. Sanchez commented that we shouldn't abandon accounts too soon and that he wasn't sure that we should suspend earnings. His concern was for the accounts of senior citizens who may not inform their children that they have a TSP account. Mr. Amelio pointed out that, as it concerns abandoned accounts, the TSP is more generous than private plans because the account can always be reclaimed. In private plans, abandoned accounts escheat to the state.

Mr. Fink stated that he was concerned about the 723,000 accounts that showed no activity. He's worried that a third party might wrongfully access the account and steal the funds. Mr. Sanchez noted that of those 723,000, he was particularly concerned about those who were retired. Mr. Petrick ex-

plained that the control plan would address protecting these accounts.

Chairman Saul called for further discussion of the Agency policy regarding lost participants age 70 ½ or older. He directed Mr. Amelio to study the matter and to bring it up for discussion at a future Board meeting.

f. Miscellaneous Matters.


Mr. Amelio provided the Board members with an update on L Fund participation rates (nearing 8 percent) and with related communication materials that he praised as world class.

4. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of internal procurement matters and personnel matters.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 11:59 a.m.

MOTION: That this meeting be adjourned.


Thomas K. Emswiler
Secretary

Attachments

NOTE: Ace-Federal Reporters, Inc. made a verbatim transcript of this meeting.